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FISCAL POLICIES MANUAL

PRIOR YEAR ADJUSTMENTS

PREFACE

Idaho Code, Section 67-3604 provides for the correction of appropriation errors in a given fiscal year that result from the prior fiscal year's activities. The correction is limited to \$500,000 and must be made within six months of the end of the prior fiscal year. This policy provides further guidance on the implementation of this statutory provision and also provides guidance on prior year adjustments that may not specifically affect appropriated balances.

DEFINITIONS

Key Statewide Balance - For purposes of this policy, key statewide balances are considered balances such as cash and appropriation balances in statutorily defined funds. Key statewide balances are distinguished from agency internal balances, defined below. While the statute governing prior year adjustments is in Title 67, Chapter 36, "Standard Appropriations Act of 1945," a key statewide balance is considered to be more than just a separately appropriated balance.

Key statewide balances can therefore be considered the cash balance in a statutorily-defined fund that is non-appropriated or continuously appropriated. Statutorily-defined funds are funds that are specifically named in Idaho code. The sources and uses of resources for statutorily defined funds are also generally specified.

Key statewide balances also include the individual elements within an agency appropriation. Agency appropriation limitations are generally specified by program and by object (personnel, operating, capital, trustee, and benefit). Each separately identified balance in an agency appropriation bill is considered a "key statewide balance."

Agency Internal Balance - Agency internal balances are balances that may be separated within the statewide accounting system with agency-specific coding elements, but that are not tracked for statewide purposes by budget or other central financial or policy personnel. Idaho State agencies may use statewide accounting system coding elements, such as grants, projects, subobject detail, etc., to track revenues, expenditures, and other balances for agency bookkeeping purposes.

For various cost accounting purposes, such as federal grant cost recovery, agencies may make significant adjustments to these agency internal balances. Agency internal balances are distinguished from key statewide balances, defined above. Given this distinction, agency

internal balances are generally not considered to be covered by the statutory limitation on prior year adjustments.

POLICY

Prior year adjustments involving the adjustment of key statewide balances are subject to the provisions of *Idaho Code*, Section 67-3604 and as such, must be limited to \$500,000 and be within six months of the end of the prior year. Adjustments of agency internal balances are not considered subject to the provisions of *Idaho Code*, Section 67-3604.

FISCAL IMPACT

Implementation of this policy along with the provisions of *Idaho Code* Section 67-3604 may result in the recording of more prior year adjustments, of a nominal amount. Implementation of this policy could also result in the recording of more significant prior year adjustments, subject to legislative approval.

ADMINISTRATIVE PROCEDURES

PRIOR YEAR FINANCIAL REPORTING ADJUSTMENT

If an error affecting key statewide balances is identified and the error exceeds the limitations of the prior year (PY) adjustment statute, and the adjustment must be recorded for state controller financial reporting purposes, the controller will need to contact JFAC co-chairs with the proposed adjustment(s) to seek their interim approval for the adjustment.

Assuming approval, the adjustment will be recorded for financial reporting purposes. The adjustments will be presented to JFAC and the legislature during the next legislative session for approval. After approval, the adjustments should be recorded in STARS. If legislative approval is not granted, the implications to financial statements and/or audit opinions will have to be deliberated and discussed between the controller, auditor, and legislative leadership.

Each year a number of financial reporting adjustments are typically made that exceed the limitations of *Idaho Code*, Section 67-3604, but do not affect key statewide balances. For example, various transactions related to fixed assets are recorded, yet these transactions do not impact key statewide balances as defined above. These types of financial reporting adjustments are not considered subject to legislative review and approval.

See the Prior Year Adjustments Chapter in the STARS User Manual or contact the Division of Statewide Accounting for assistance.

PRIOR YEAR ACCOUNTING ADJUSTMENTS

If an error affecting key statewide balances is identified and the error exceeds the limitations of the PY adjustment statute, and the adjustment should be recorded (but is not required for financial reporting purposes due to immateriality), this adjustment should be presented to JFAC.

For example: Interest allocation to a fund is missed for a number of years. Depending on sources and uses, adjustment may be more or less appropriate. If fund excesses go to the general fund (since missed interest would have gone to the general fund anyhow) an adjustment may not be warranted. But if fund excesses stay in the fund resulting in, for example a possible adjustment to regulatory fees, the adjustment would probably be warranted in order to remain accountable to the regulated parties/stakeholders in the fund.

Prior year accounting adjustments may also affect key statewide balances, yet not exceed the limitations of the prior year adjustment statute. These adjustments may be recorded without legislative review and approval. Adjustments of this nature should be used only in situations of legitimate, unforeseen errors, and not as a substitute for proper year-end encumbrance processing or as a way to achieve a general carryforward of prior year appropriations. Prior year adjustments should be reviewed and approved by the Divisions of Financial Management and the State Controller's Office.

See the Prior Year Adjustments Chapter in the STARS User Manual or contact the Division of Statewide Accounting for assistance.

PRIOR YEAR REVENUE ADJUSTMENTS

Revenue adjustments should be treated as expenditure adjustments as outlined in the "Prior year financial reporting adjustments" and "Prior year accounting adjustments" sections above. Revenue adjustments will not generally impact appropriation balances, but may still impact cash in a statutorily defined fund. In addition to above requirements for JFAC notification/approval, the Administrator of the Division of Financial Management should be notified of significant revenue adjustments, so that appropriate economic forecasting adjustments can be made.

See the Prior Year Adjustments Chapter in the STARS User Manual or contact the Division of Statewide Accounting for assistance.

PRIOR YEAR AGENCY INTERNAL ADJUSTMENTS

If an error affecting agency internal balances is identified, and the error exceeds the limitations of the PY adjustment statute, these adjustments may be recorded by agency fiscal personnel without notifications to state budgetary or accounting personnel. These adjustments are considered agency bookkeeping adjustments and thus are not subject to the provisions of *Idaho Code*, Section 67-3604. If you have questions whether you are adjusting an agency internal balance or a key statewide balance, contact the State Controller's Office for assistance.

See the Prior Year Adjustments Chapter in the STARS User Manual or contact the Division of Statewide Accounting for assistance.